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TAGS: EINV ECON PREL EFIN SOCI SCUL PGOV QA
SUBJECT: AMBASSADOR'S LETTER -- STARING INTO THE ABYSS,
QATAR NOT ALARMED BY THE VIEW

Classified By: Ambassador Joseph LeBaron, reasons 1.4 (b) and (d).

¶1. (C) Prices on the Doha Securities Exchange plummeted for several days last week, creating a palpable sense of investment panic here among Qataris.

¶2. (U) In response to the mounting fear, Qatar Investment Authority, the sovereign wealth fund, said October 13 that it will take 10-20 percent equity stakes in banks listed on the Exchange in order to boost confidence in the market. Stock prices have been extremely volatile since the announcement, but the capital markets here appear to be gradually stabilizing.

¶3. (C) As the markets calm, Qataris are carefully assessing how their tiny gas-rich country will fare in what increasingly looks like a protracted global recession. They are comforted by what they see.

QATAR WELL-POSITIONED FOR A GLOBAL RECESSION

¶4. (C) Oil prices may have collapsed -- and they have dropped under $70 for the first time in 14 months, a stunningly rapid fall -- but Qatar's economic well-being rests not so much on oil as on gas. And the al-Thani ruling family, remarkably attentive to risk in many of its forms, has been a relatively cautious spender of state revenues.

¶5. (C) Perhaps I can best illustrate that al-Thani prudence by recounting briefly one of the most interesting diplomatic dinner parties I have ever attended. It was organized by my Dutch colleague in honor of the visiting Netherlands' Minister of Economic Affairs, Maria van der Hoeven.

¶6. (C) Once the 16 of us had been seated at the table, the Dutch ambassador asked Chairman and CEO of PFC Energy International, Vahan Zanoyan, who was also visiting Qatar, to reprise for us his view of global energy markets in light of the financial crisis.

¶7. (C) An extraordinary fact emerged in the ensuring discussion over dinner: In 2009, Qatar does not need the $18 a barrel equivalent in oil and gas revenues that it needed in 2000 to meet its spending needs and pressures.

¶8. (C) Qatar does not even need the $11 a barrel it needed in 2007, or the $4 a barrel it needed in 2008. No, in 2009, Qatar's steadily increasing gas exports could be -$8 -- yes, minus $8 -- per barrel equivalent in order to meet its social

Program spending, infrastructure investment costs, subsidies, and other outlays, Zanoyan said. I could hardly believe this, but the chart he distributed with this information is beside me as I write this.

¶9. (C) By the way, Venezuela and Nigeria are the two OPEC states with the greatest need to keep oil prices high, according to Zenoyan's chart. Venezuela needs oil at $97 a barrel and Nigeria at $71 a barrel in 2009 to meet spending pressures. But Venezuela has capital flight costs, and Nigeria has "misappropriation" -- read "corruption" -- costs. Qatar has little to none of these.

¶10. (C) For the record, Saudi Arabia's oil price nut in 2009 is $62, the UAE, $51, and Kuwait, $48. Iran's is $58.

¶11. (C) Qatar also takes comfort in knowing that its gas exports provide an increasing share of the world's energy, making its mammoth gas reserves more important than ever. And more of that world's gas is traded as LNG, which is the dominant form of Qatar's gas exports.

¶12. (C) That LNG trade is increasing global, and at spot prices, which favors nimble suppliers such as Qatar that can ship large LNG cargoes to wherever the immediate demand for LNG is highest.

¶13. (C) Looking back for a moment, the changing dynamics in the LNG market between 2001 and 2008 favored exporters such as Qatar because the number of new LNG importers exceeded the number of new LNG exporters. Looking forward, even if more

new exporters, such as Yemen and Angola, enter the LNG market in 2008-2012, they are not expected to saturate the market on the supply side.

¶14. (C) Qatar is further protected on the supply side because gas producers increasingly need gas for domestic industries and development. That domestic need reduces the amount they have for export. The small economy of Qatar, with its 900 trillion cubic feet of gas reserves, should be able to easily meet its own domestic feed stock requirements and to export, too.

¶15. (C) Gas, and oil, also do not appear to face much competition from renewable energy sources, certainly not in the immediate term. Hydrocarbons will continue to provide most of the world's energy needs, even if alternative energy, not OPEC oil, becomes the marginal barrel in the future.

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SOVEREIGN WEALTH AN EVEN MORE IMPORTANT CAPITAL ASSET
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¶16. (C) Qatar can reasonably expect its sovereign wealth fund, QIA, and Qatar Petroleum's energy-oriented wealth fund, QPI, to emerge during the global recession as increasingly significant players in investment markets, too.

¶17. (C) The Qataris are well positioned to take advantage of the fire sale prices that will emerge in many asset classes as recessionary forces gather momentum.

¶18. (C) And the Qataris will take advantage of these asset price declines. The $65 billion Qatar Investment Authority led a capital injection of about $9 billion into Credit Suisse Group, its stake in the Swiss bank to something under 10% from just under 2%, the Wall Street Journal reported recently.

¶19. (C) This news follows reports that the Qataris are positioning themselves to make additional bank investments and to purchase commercial real estate in the United States, and elsewhere.

¶20. (C) We can expect more such news reports in the years ahead. Qatar is well positioned to prosper, should a global recession occur.
LeBaron